

# NEW JERSEY DIVISION OF TAXATION TECHNICAL BULLETIN

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**TB-36**

**FOR RELEASE: INTERNAL ONLY \_\_\_\_\_**  
**OUTSIDE DIVISION   x**

**ISSUED: 1-23-02**

**TAX: GROSS INCOME TAX**

**TOPIC: FRINGE BENEFITS PAID BY S CORPORATIONS TO  
SHAREHOLDERS**

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Fringe benefits paid to S corporation shareholders owning 2% or more of the stock of a New Jersey S corporation are not deductible by the S corporation and are taxable as income to the shareholder. These amounts, included in the shareholders' federal gross income on the Form W-2, must also be included in their New Jersey gross income.

Shareholders owning more than 2% of the stock of an S corporation are then allowed to deduct the amount paid for health insurance for themselves and their spouses from gross income in the category of "medical expenses." The deduction is limited to the amount of earned income derived from the business establishing the insurance plan. Premiums paid for health insurance coverage during any month that the shareholder is eligible to participate in any subsidized health plan maintained by the shareholder or the shareholder's spouse are not allowed as a deduction from gross income.

Fringe benefits paid to New Jersey S corporation shareholders owning 2% or less of the stock and to shareholders of a Federal S corporation that has not made the S election in New Jersey are deductible by the S corporation and are not taxable as income to the shareholder.

*For more information, contact the Division's Customer Service Center at 609-292-6400 or write to the Division of Taxation, Information and Publications Branch CN 281, Trenton, NJ 08695-0281. Many commonly used State tax forms are now available by fax through the Division's NJ TaxFax service. Call NJ TaxFax from your fax machine's phone at 609-826-4500 to obtain the form you need or a list of available forms. The form(s) referenced in this bulletin may not be currently available on NJ TaxFax.*